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The President's Daily Brief

June 13, 1974

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~~*Top Secret*~~ 25X1

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THE PRESIDENT'S DAILY BRIEF

June 13, 1974

PRINCIPAL DEVELOPMENTS

In Italy, political consultations have as yet produced no compromise on the economic policy differences that brought Prime Minister Rumor's resignation. *(Page 1)*

The French austerity program announced yesterday was characterized by President Giscard as "harsh" in a conversation he had with Ambassador Irwin. *(Page 2)*

The new leaders in France and West Germany share a number of common concerns as they forge their policies toward the EC. *(Page 3)*

Military activity in Cambodia is concentrated northwest of Phnom Penh, where a Cambodian army relief force is nearing the isolated government base at Lovek. *(Page 5)*

Notes on the following subjects appear on *Pages 6 and 7:*

Soviet and East European grain prospects,
Soviet [redacted] 25X1
The Soviet media reaction to President Nixon's Middle East trip,
A large Soviet contract to buy US chemical plants,
Japanese reaction to India's nuclear test,
Portuguese Guinea, and
Argentina.

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ITALY

The consultations following Prime Minister Rumor's resignation have produced no compromise on the economic policy differences that brought down the Italian government. The US embassy in Rome says that Italians are coming to realize that the current political crisis is more serious than the routine changes of government they are accustomed to.

The Socialists continue to oppose the credit restraints that the Christian Democrats feel are necessary to stabilize the faltering economy. Meanwhile, the labor unions have made clear that they will press their economic demands on any new government, although they have indicated they would support a program that would equitably distribute austerity and avoid unemployment.

President Leone has been consulting with political leaders to find a solution. His consultations end today, but without the slightest sign so far of a break in the deadlock.

Well-placed US embassy sources report that Leone has under consideration the possibility of submitting the issues that divide the government to parliament for an open debate and vote. Leone may float this prospect to press the Socialists--who would not want to bear the full onus of the break-up of the center-left coalition--to make concessions.

The Socialists are not likely to yield. They have been exuding confidence over the Christian Democrats' defeat in the recent referendum on divorce. The Socialists interpreted this result as proof of a basic shift in Italian voter attitudes in favor of more rapid social change.

If, as expected, the regional election next week in Sardinia results in Christian Democratic losses and Socialist gains, the Socialists will probably become even more intransigent.

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FRANCE

The French government yesterday adopted an austerity program designed to slow inflation, restore the balance of payments, expand exports, and finance new social welfare measures.

President Giscard characterized the program as "harsh" in a conversation with the US ambassador. He said that he hoped to control inflation, which is expected to be about 15 percent for 1974, within 18 months.

The program, some of which requires parliamentary approval, includes:

--A reduction of oil consumption by rationing heating fuels, which account for 40 percent of French energy consumption.

--An 18-percent increase in corporate taxes for 1973.

--A special tax on companies that would have paid no tax for 1973.

--An income tax surcharge up to 15 percent for individuals in the higher brackets, to be partially reimbursed next year.

--A one-time 10-percent tax on real estate profits for 1974.

--A tax designed to limit corporate capital gains derived from inflation.

These tax measures would increase government revenues this year by 4 to 5 percent. Other items under consideration are increased prices for gasoline and other fuels, and additional measures designed to restrict credit.

Some of the funds derived from the austerity program will be used to finance the social welfare measures that Giscard promised during his campaign. Significant progress in that area is necessary by fall to maintain labor peace and appease the left. The government will announce its social program on June 19.

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EC

The changes of government in Bonn, Paris, and London appear to have brought about a new alignment among EC members and encouraged a more pragmatic approach. The EC is no longer fight against France; instead, an incipient Franco-German entente is struggling to lead the others in the difficult search for ways to stop the erosion of the community.

Chancellor Schmidt and President Giscard d'Estaing, presiding over the two most powerful economies in Western Europe, share a number of common concerns. As they forge policies toward the EC during these first weeks, they see their EC partners--and the community itself--in serious trouble.

The customs union for industrialized goods and the single market for farm products, which are at the core of the EC, have started to crumble under international monetary strains. The moves last month by Italy and Denmark to curb imports, and the Italian government collapse over threatening economic disaster, have shaken the community.

Schmidt and Giscard, both former finance ministers, understand well the dimensions of economic imbalance within the EC and see an urgent need for corrective action. Despite their rapport and common interest in finding effective remedies, the two leaders face formidable obstacles. 25X1

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A few specific measures designed to coordinate member-state economic policies may be adopted before too long. The Nine will study an EC Commission proposal for an anti-inflation program, a new concerted float of EC currencies, and large new international borrowings by the EC monetary cooperation fund.

A better sign of what lies in store for the immediate future came from last week's EC finance ministers' meeting, which was described as "devoid of illusion." Participants at that meeting agreed that economic stability would probably be best pursued individually by the member states.

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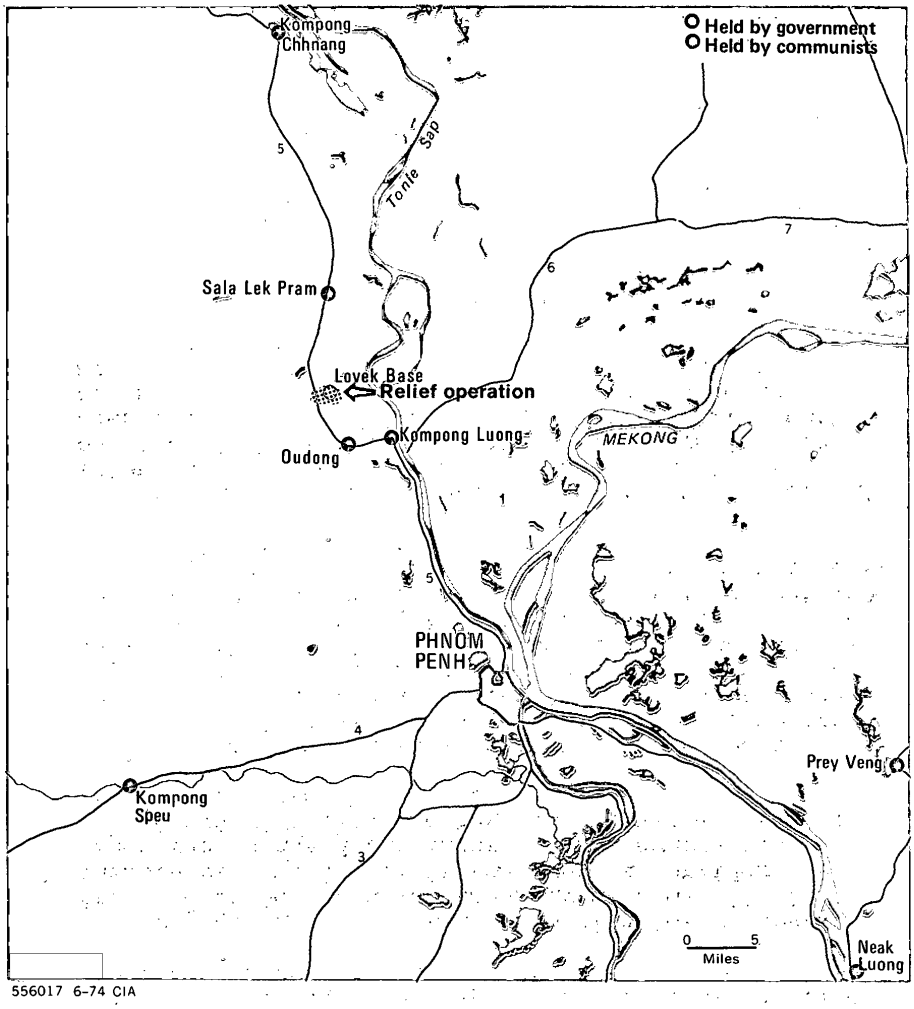
CAMBODIA: Phnom Penh Area



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CAMBODIA

Military activity is centered northwest of Phnom Penh, where a Cambodian army relief force is nearing the isolated government base at Lovek.

Two government battalions moving toward Lovek from the Tonle Sap River thus far have met little resistance. Their aim is to secure a corridor between the base and the river for the evacuation of the 30,000 civilians who have been stranded at Lovek for over a month.

The Khmer Communists, meanwhile, have moved more men and supplies, and possibly a 37-mm antiaircraft gun, into the northwestern battlefront, and an intercept indicates that heavy attacks against Lovek could begin in the next few days. Communist commanders near Lovek and elsewhere in the country have been ordered to carry out more military actions to take advantage of the government's current preoccupation with internal political problems.

As part of this effort, the communists apparently intend to keep up their almost daily rocket attacks on Phnom Penh, although these attacks thus far have been relatively ineffective. Insurgent units south of the capital, who recently received 150 rockets, have been ordered to fire them into the city "one or two at a time."

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NOTES

USSR: Cold, wet weather in the Soviet Union over the past several weeks is likely to reduce yields of both winter and spring grains. Assuming average weather for the rest of the growing season, we estimate that the Soviets will harvest about 190 million tons--down from the record 222.5-million-ton harvest of last year. This will probably make it necessary for the USSR to buy foreign grain in fiscal year 1975.

USSR: [redacted] 25X1

Japan-India: As a means of protesting India's recent nuclear test, Tokyo apparently intends to limit its aid to New Delhi, which amounted last year to almost $100 million. According to press reports, Japan will announce this decision at a meeting of the 13-member Aid India consortium which begins on June 13 in Paris. [redacted] 25X1 25X1

Portuguese Guinea: Cease-fire talks between Lisbon and the Portuguese Guinea insurgents are scheduled to reopen today in Algiers. The first round of talks, held in London, was adjourned on June 1 to give the two sides time to study each other's basic bargaining position. The insurgents are demanding independence for the territory; Lisbon, although recognizing the possibility of independence, is insisting on a popular referendum that will allow the inhabitants of Portuguese Guinea to determine the territory's political future.

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USSR: Soviet media have given minimal coverage thus far to President Nixon's Middle East tour. Tass and the domestic service of Moscow Radio provided brief reports on the President's arrival in Cairo yesterday, avoiding any hint of the huge welcoming crowds. Soviet media coverage to date betrays no special concern about the trip, and statements on the coming summit remain highly positive.

USSR-US: The USSR has agreed to purchase four ammonia plants worth $200 million from Chemico, a US firm. This is the largest single Soviet contract for the purchase of US plants. Signing of the contract is scheduled to occur prior to President Nixon's arrival in Moscow. The ammonia plants will be used to produce urea fertilizer and are part of a continuing Soviet program to import Western machinery and technology to modernize lagging industrial sectors.

Argentina: President Peron, after earlier threatening to resign, announced late yesterday that a ten-hour solidarity strike, called by Peronist labor and youth organizations, had given him the backing he needs to stay on. He is disturbed by recent economic setbacks that he attributes to sabotage and sectarianism within the Peronist movement. The fact that Peronist supporters were ordered into the streets immediately after his resignation threat, followed by an equally dramatic announcement that he would remain, suggests careful orchestration which could serve as a prelude to new austerity measures.

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